the Freeman

Ideas on Liberty

DECEMBER 1978

Index 1978

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The Inflation Crisis, And How To Resolve It

HENRY HAZLITT

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Irvington-on-Hudson, N.Y. 10533 Tel: (914) 591-7230
Leonard E. Read, *President*

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

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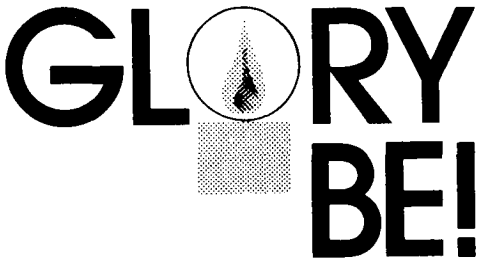
Leonard E. Read



True glory consists in doing what deserves to be written; in writing what deserves to be read; and in so living as to make the world happier and better for our living in it.

—Pliny, The Elder

The Roman naturalist, Pliny, The Elder, was born in 23 A.D. When he passed away at the age of 56, he had written 37 books on the nature of the physical universe—including geography, anthropology, zoology, botany and other related subjects.

Pliny did, indeed, leave the world happier and better for having lived in it. His scientific findings have been far surpassed, as we would expect. And if we live our lives aright—in freedom—the miracles of the future will surpass our findings, as ours have his! He lived every moment of his life with zest—enthusiasm—perhaps the greatest stimulus for noble works. Wrote Emerson: "Every great and commanding movement in the annals of the world is the triumph of enthusiasm. Nothing great was ever accomplished without it."

True glory consists in doing what *deserves to be written;* it consists in noble deeds worth recording. This is to be distinguished from blatant notoriety. History presents far more writings of the latter sort than the former. Alexander the Great, Charlemagne, Napoleon, Hitler, Stalin, and countless other great destroyers loom too large in written history.

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Why these lopsided recordings? It is the bad, not the good, which attracts the public eye. Observe today's media and the preponderance of reporting that does not *deserve* to be either written or read, spoken or heard.

The following is an attempt to think through and to understand Pliny's three parts of True Glory. If even partially successful, I will make a small contribution to the displacement of that which should be neither written nor read.

• *True glory consists in doing what deserves to be written*—In my study of writing that deserves to be written, I've been surprised that most of the world's great writers—past and present—never kept a daily journal. Obviously, they had other disciplines that brought out their remarkable writings. We are all different in all respects. As for me, I have kept a journal for nearly 27 years without missing a day—capturing every thought that comes to mind or that I have learned from others—a rewarding experience. What a discipline—writing such entries for nearly 10,000 days!

Recently I came upon my entry of August 11, 1955, long since forgotten:

> If it were not for the gravitational force pulling us down, there would be no such concept as "up."
>
> If there were no darkness, we would have no sense or appreciation of light.
>
> If there were no evil, we would have no awareness of virtue.
>
> If there were no ignorance, we would not know intelligence.
>
> If there were no troubles, there would be no pleasures.
>
> If there were no obstacles, there would be no aspirations.
>
> If there were no insecurity, we would not know of security.
>
> If there were no blindness, we would not be conscious of perception.
>
> If there were no poverty, we would not experience riches.
>
> If no man ever imposed restraint on others, *there would be no striving for liberty and the term would not exist.*

I now recall discovering, just a few days later, while reading Runes' *Treasury of Philosophy,* that around 500 B.C. Heraclitus was saying the same thing: "Men would not know the name of justice if there were no injustice." This made me laugh at my "originality" and brought to mind Goethe's assertion: "All truly wise ideas have been thought already thousands of times."

Assuming the above observations to be valid, then "doing what deserves to be written" is learning how to cope with and overcome life's

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countless obstacles. It is an observed fact that the art of becoming—human development—is composed of acts of overcoming.

Gravitation, for instance, is a physical force drawing all and sundry toward the earth's center. What else accounts for physical ascendancy! Were there no such force, there would be no ladders or airplanes or rain or snow—indeed, no life!

Obstacles are assuredly the source of aspirations. Human frailties—which lead to such things as governmental interventions of the kind that destroy creative activities—inspire their own overcoming. Why, then, do errors have their value? Their overcoming leads to evolution—human Liberty!

A Latin proverb: "Nothing is too often repeated that is not sufficiently learned." This encompasses an enormous realm, including every thought that reveals truth—repeating it over and over again, seeking improvement. *Learning how to overcome may very well rank first in what deserves to be written!*

• *True glory consists in writing what deserves to be read*—There are countless thousands of books, articles and commentaries that deserve to be read. The vast majority of these writings are known to a mere handful of people. I shall refer to only one that is an inspiring and instructive example: *You Are Extraordinary* by Roger J. Williams.[1]

Professor Williams, a noted biochemist, became convinced that his wife's death was caused by the doctor treating her as "an equal," rather than as an individual. This led the Professor to his first study in human variation, having to do only with the variation in taste buds in different people. The findings, published in *Free And Unequal,* are fantastic.[2]

Having an unusually inquiring mind, he began an investigation into ever so many other forms of variation. The findings appeared in 1956: *Biochemical Individuality,* somewhat technical for lay readers.[3] Nevertheless, I read it with avidity, because it contained an important key to the freedom philosophy. It was this book that led to my acquaintance with the author.

We corresponded, and after answering a question of mine he added that he had just written a book, to be entitled *You Are Extraordinary,* designed, he said, for lay readers. The manuscript was enclosed.

Professor Williams is extraordinary. So are you and so am I and so is each human being. Indeed, no one is the same as a moment ago. Variation is a rule of all life—plant, animal and man.

---

[1] *You Are Extraordinary,* Pyramid Books.

[2] *Free And Unequal,* University of Texas Press.

[3] *Biochemical Individuality,* Wiley.

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Why does *You Are Extraordinary* deserve to be read? It makes the case for liberty. Wrote William Gifford:

> Countless the various species of mankind;
> Countless the shades that sep'rate mind from mind;
> No general object of desire is known,
> Each has his will, and each pursues his own.

Once variation is recognized as a fact of life, there can be no endorsement—none whatsoever—of know-it-alls controlling the creative actions of you or me or anyone. Authoritarianism dismissed as utter nonsense! We would witness our 16,000,000 public officials reduced to a mere fraction thereof. All but a few would return to that wonderful status of *self-responsible* citizens—America's miraculous performance on the go again.

• *True glory consists in so living as to make the world happier and better* How do we live to make others happier and better? Here are a few guidelines, mostly gleaned from others:

> A desire to stand for and staunchly to abide by what is believed to be righteous—seeking approval from God, not man.
>
> Strive for that excellence in the understanding and explanation of freedom which will cause others to seek one's tutorship. This brings happiness to both the striver and the seeker—and the world!
>
> Live with zest and enthusiasm. Nothing great was ever accomplished in the absence of such spirit.
>
> Be optimistic. This does not mean a blindness to dictocrats lording it over us. Rather, it is self-assurance that a turnabout is in the offing. The world is not going to the dogs as the prophets of doom proclaim. Optimism increases happiness for it is contagious.

If we would make the world happier and better, we might well heed these words by Albert Camus when accepting the Nobel Prize in 1957: "In all the circumstances of his life, the writer can recapture the feeling of a living community that will justify him. But only if he accepts as completely as possible the two trusts that constitute the true nobility of his calling: the service of truth and the service of freedom."

To serve truth and freedom is as high as we can go. When more of us than now attain this intellectual and moral height, the path toward glory will open:

> Glory to God in the highest, and on earth peace, good will toward men.

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John Montgomery

The "Invisible Hand" or the Heavy Hand?

IT WILL COME as no surprise to readers of the *Freeman* that the national debate over inflation, recession and unemployment rests on a more fundamental issue—what kind of economic system will work best for America? Should it be a continuation of the free-market, capitalistic system which meant unparalleled growth and wealth in the past, or a centrally planned economy directed by government?

There is a superficial plausibility to the argument for central planning. The public is generally inclined to leave problems of national scope to government and to assume that centralized authority is either desirable or inevitable. Looking on the surface of things, people generally think no further than the immediate effects and short-term benefits of government action. Beset and buffeted by the workings of the marketplace, they are taken in by the promise of ideal government action to correct the shortcomings of the market, and they forget that government promises often exceed the results.

In contrast, economic thinking shows that there is good reason to believe that government action can be counterproductive. Economic thinking goes beyond the immediate, visible impact of a policy to foresee the longer-range, secondary effects. And it can recognize the real as opposed to the promised results of a government policy which is based on a misunderstanding of the workings of the market economy.

For example, government-

Mr. Montgomery is a newspaperman and writer on socioeconomic issues who lives in Closter, N.J.

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imposed price controls would seem to offer protection against inflation. But powerful economic forces come into play and cause widespread shortages. Then, government must intervene again. Rationing is imposed. The result of that is the rapid growth of black markets.

What's more, there is a conflict between successful politics and sound economic policy. Politics can work to serve the interests of powerful pressure groups rather than the general public.

An Invisible Hand

Two centuries ago the first great economist, Adam Smith, explained the operation of the free market by saying it was as though there were an invisible hand directing the efforts of everyone—even though each was pursuing his own gain—in a way that promoted the interests of society as a whole. And that is essentially what the advocates of a free market are saying today, leaving themselves open to the charge that they are clinging to an archaic notion which no longer applies in modern times.

Smith's great work, *The Wealth of Nations,* came out in the watershed year of 1776. The industrial revolution was just under way and it was a time of pervasive regulation of production and trade by the king and Parliament. Smith was arguing for a laissez-faire, hands-off policy by government. But it wasn't that he thought the invisible hand was tugging on puppet strings to guide each producer, merchant and trader. Smith believed that economic affairs were self-regulating, that internal order was inherent in the competitive market process to the extent that it was free of government intervention. He saw an order which, in the words of his contemporary Scottish philosopher, Adam Ferguson, was the "result of human action but not of human design."

In the two hundred years since Adam Smith, economics has developed in many directions. But for our own time only the economists of the so-called Austrian school, named for the place of its beginnings a century ago, have contributed much to that concept of Smith's. In particular, Friedrich Hayek, Nobel Prize winner and dean of the Austrian economists of today, has drawn on the work of his great teacher, Ludwig von Mises, to address the idea repeatedly over the past 40 years or more. Mises, Hayek and younger "Austrians," mostly in the English-speaking world, have built on Smith's concept in fundamental ways to show how it can apply to the vastly more complex economy of today.

In attempting to describe some of those ideas here, largely from Hayek's writings, only the essence of the market process will be focused

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on. Major forces and mechanisms will go unmentioned and the picture will be somewhat abstract and idealized. But if the advocates of central planning can rhapsodize over the economic utopia to be realized if their designs are carried out, then there would appear to be good reason to portray the workings of a truly competitive market economy, free of the distortions and constraints imposed in these times of big business, big labor and, most of all, big government.

Hayek restates Smith's concept by saying that the coordination of individual efforts in society is the result of an immensely complicated mechanism which exists, works and solves problems but is not the result of deliberate regulation. Or, as he puts it, "The spontaneous interplay of the actions of individuals may produce something which is not the deliberate object of their actions but an organism in which every part performs a necessary function for the continuance of the whole, without any human mind having devised it."[1]

General Rules of Order

The "ordering forces" in such social formations are the general rules for the behavior of individuals in a society. Not that these rules are laid down by the architect of a master plan, or that the rules dictate what each person must do. Rather, the rules are largely negative, prohibitions against certain forms of behavior. Each person knows what he must not do but is left free to choose what he will do from all the remaining alternatives. What these common rules give rise to are patterns of human behavior, a certain range of actions and an over-all order in society.

Such common rules have come down through the ages, passed on in the cultural traditions of human societies, and represent the accumulated experience of mankind. They have shaped the spontaneous order in human affairs which is now widely recognized in such social institutions as language, law, morals, writing and the use of money. In these cases it is no longer argued that they are the work of inventors, legislators or bodies of wise men.[2]

In certain ways the idea of central economic planning dates back to Mercantilism, which was dominant in the 17th Century and then went on the decline as capitalism began to take shape. Its economic assumptions were finally put to rout by Adam Smith, but not before England's Mercantilist policies had goaded the American colonies to revolt. Mercantilism held that the purpose of economic life in a nation was to serve and advance national power; accordingly, it was the right of government to control economic affairs. Throughout that period, the

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trading nations of western Europe were engaged in commercial warfare with each other, in the struggle drawing on the resources of their colonial possessions without regard to the interests of the colonists and native inhabitants. The most intense international rivalry was in foreign trade, which yielded gold—the source of national wealth and power.

In mobilizing its assets and people in the international struggle, each nation tried to promote a forced growth of its domestic economy, particularly in the small-scale manufacturing of the time and the production of goods and commodities for export. Despite the embryonic state of economic knowledge, each nation resorted to a planned economy, which gave rise to an overgrown thicket of regulations, trade restraints, currency manipulation, impoverishing controls over wages and the movement of labor, grants of monopoly privileges, and subsidies to favored industries. The similarity of the extensive intervention in the economy by the modern welfare state in pursuit of its social goals has suggested the name of neo-Mercantilism.

Utopian Socialism

But it is not so much that today's advocates of central planning want a return to Mercantilism. Their sustaining vision came along a bit later, early in the 19th Century. And it was a vision which has had enormous influence, inspiring generations of social scientists, writers and intellectuals to this day. Its patron saint was an impoverished French nobleman, the Comte de Saint Simon. His followers and successors generated the major part of what came to be known as Utopian socialism. Observing the great accomplishments of the physical sciences in 18th Century France, they sought to develop a social science of society in which everyone in it would be directed by an elite group of philosophers and scientists using their knowledge for the common good.

Then, not long after and building at least in part on their ideas, came Marx and Engels who foresaw the downfall of capitalism in the revolt of the workers of the world to take over the means of production from the capitalists who had exploited their labor. But Marx was far from a mere social visionary. Starting with certain flaws in the classical economics of the time, he built his own system which continues to exert a powerful influence on many economists. This influence can be seen in the insistence by many that central planning is necessary to compensate for "inherent" and "structural" weaknesses in the capitalistic system.

There are other reasons for the

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continuing resistance to the idea of a self-regulating economy. For one thing, it took a long time for man to concede that any system with order, function and apparent purpose was not of human design; the belief in central planning may be the last vestige of that reluctance. But, most important for politics and policy today, Keynesian economic theory which has been so dominant since the Thirties plus the development of mathematical models and statistical data which can be fed into a computer seem to offer ways that the economy can be managed.

Too Complex for Planners

In a recent article, Hayek responded to that idea by saying that "the very complexity which the structure of modern economic systems has assumed provides the strongest argument against central planning. It is becoming progressively less and less imaginable that any one mind or planning authority could picture or survey the millions of connections between the ever more numerous interlocking separate activities which have become indispensable for the efficient use of modern technology and even the maintenance of the standard of life Western man has achieved."[3]

But, then, if central planning cannot cope with such complexity, how would the free market do any better? It would, of course, have to serve such basic economic functions as the allocation of resources, the organization of production, and the distribution of goods and services. But these things cannot occur in a vacuum. Information is required: about the availability of resources, about how production is progressing and whether adjustments are called for, and about what goods and services people want, and how much, of each.

The crux of the matter, as Hayek puts it, is that the necessary knowledge and information does not exist in concentrated or integrated form but solely as dispersed bits of incomplete and frequently contradictory knowledge possessed by different individuals throughout the economic system.

Market Pricing

So, how is this dispersed information to be conveyed to the decision makers, who are also scattered about the system? And how are the decision makers to know what information of potential use to them is out there somewhere, beyond their purview but available for the asking?

In this connection, Hayek has another observation: knowledge comes in two kinds. First, there is the scientific knowledge vital to an advanced technological society. That knowledge would be easily commanded by the experts, and

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would even be manageable by the central planners. But then there is the second kind, that important but unorganized knowledge which has to do with the particular circumstances of time and place. Of this latter kind, nearly every participant in the market system possesses knowledge which is unique to his job and location. And, in view of this expertise, who better should make the decisions that that knowledge mandates?

To illustrate the difference between these two kinds of information, Hayek points out how much there is to learn on a new job even after completion of scientific or technical schooling, and how important to any job is the knowledge of the people involved, of local conditions and special circumstances.

Response to Change

And then there is the problem of change. The market must respond with dispatch to change which can occur anywhere in the economic system: a transportation tie-up in and out of Chicago, a craze for sky blue jeans on the East Coast, and so on. Again, decisions are required where the change has occurred and where the knowledge of possible responses is to be found. It is the man on the spot who must decide and take action. But he needs to know more than the facts of his immediate surroundings. He must know something of the big picture, what is going on out there in the rest of the economic system—so that he can dovetail with the other decision makers and fit in with the workings of the whole system.[4]

If there were no change, at least one of the insoluble problems confronting the central planners would be done away with. They could draw up long-range plans with precise and detailed instructions for the underlings throughout the system to carry out. There would be no need for adjustment to unforeseen events, for adjustments to eventualities which had not entered into their calculations. But, among other things, there would still be the practical impossiblity of obtaining and distilling the enormous quantity of information reflecting local conditions in all the interacting sectors of the economy.

Returning to the market economy, it is not enough that knowledge and the ability to act on it be dispersed throughout the economic system. A mechanism for communicating that knowledge is needed. And there is such a mechanism: the price system.

Prices are a numerical index which determines the value of each thing considered for purchase relative to all other things available to each potential buyer, whether producer, consumer or middleman. Thus he can rank the urgency of his needs as a basis for his decisions

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without being overwhelmed by all of the information which might conceivably be brought to bear on his choices. Price fluctuations reflect change wherever it has occurred in the market system. The numerical index of prices communicates sufficient information in condensed and distilled form for the market as a whole to be coordinated.

Guidelines to Follow

Hayek illustrates how the price system works as follows: "Assume that somewhere in the world a new opportunity for the use of some raw material, say, tin, has arisen, or that one of the sources of supply has been eliminated. It does not matter for our purpose—and it is significant that it does not matter—which of these two causes has made tin more scarce. All that the users of tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere and that, in consequence, they must economize tin. There is no need for the great majority of them even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand and switch resources over to it, and if the people who are aware of the new gap thus created in turn fill it from still other sources, the result will rapidly spread throughout the whole economic system. This influences not only all the uses of tin but also those of its substitutes and the substitutes of these substitutes, and so on. . . . The whole acts as one market, not because any of its members surveys the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all. The mere fact that there is one price for any commodity—or rather that local prices are connected in a manner determined by the cost of transport, etc.—brings about the solution. . . .

"We must look at the price system as such a mechanism for communicating information. . . . The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on, and this is passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never

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know more than their reflection in the price movement.

". . . The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; that is, they move in the right direction. . . ."[5]

The Entrepreneur's Role

Austrian economist Israel Kirzner, citing the work of Mises, fills in another part of the picture of the market process. He describes three types of market participants: consumers, entrepreneur-producers and the providers of productive resources, including labor. Again, the key to the process is information, with the market participants starting out in ignorance of each other's intentions and thus unable to join in exchanges as buyers and sellers. Prices estimated and offered are far apart but move closer together as the market process goes on. From the information derived in the process about each other's expectations, the market participants change plans and set new courses.

The entrepreneur is the driving force in the process. It is he who is on the alert for places in the economy where conditions for exchange exist and who seeks profit in the creation of new business, new production methods and new products. And in his activities he conveys information in the form of successive price offers and estimates, nudging the plans of the market participants into closer and closer alignment until an exchange is achieved. In so doing, he exploits and creates change in the discovery of new resource sources, new technical opportunities and new consumer tastes and preferences. And he exploits such possibilities by changing prices, product specifications and selling effort. Impelled by the goad of competition, he seeks to close a deal, secure a resource or penetrate a market sector before his rivals. The result is growth in business activity, in income and employment, and in the supply of new goods and services.[6]

Stultifying Bureaucracy

There is no place in the centrally planned economy for the entrepreneur in search of profit. Bureaucrats are after job security and power in the hierarchy. The search for profits is risky and the bureaucrat must play it safe. Besides, he knows the profits are not for him to keep. Thus, another signal required by the self-regulating economy, profit as indicator of the viability of a business enterprise and guide to the use of resources, is forgone.

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And there is no place in the free market system for the central planners whose inflexible designs would stifle the free movement and initiative of those who make it work. Paraphrasing Hayek, planning in a society consciously directed from the top could never begin to utilize all the knowledge and energies bound up in the countless individuals who make up the community. Human resources will waste away while all await their marching orders.

—FOOTNOTES—

[1]F. A. Hayek, "The Trend of Economic Thinking," *Economica,* May 1933, p. 130.

[2]Hayek, "Kinds of Order in Society," Institute for Humane Studies reprint, Menlo Park, Calif., 1975, pp. 6-11.

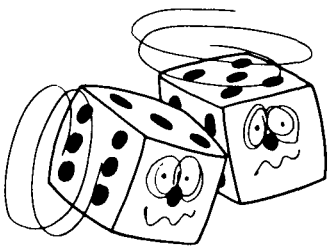
[3]Hayek, *Morgan Guaranty Survey,* January 1976.

[4]Hayek, "The Use of Knowledge in Society," Institute for Humane Studies reprint, Menlo Park, Calif., 1977, pp. 5-13.

[5]*Ibid.,* pp. 13-15.

[6]Israel Kirzner, *Competition and Entrepreneurship* (Chicago: Univ. of Chicago Press, 1973), chapters 1 and 6.

Brian Summers



Are Successful Businessmen Just Lucky?

SOME PEOPLE contend that free enterprise is nothing more than a game of chance—that business profits and losses are purely a matter of luck. Is this true? Are successful businessmen just luckier than the rest of us?

Consider a simple example. Suppose a businessman has net earnings of $35,000 in a given year. Is that $35,000 all profit? Not necessarily. If the businessman put his own labor into the business, and if he could have earned $20,000 working for someone else, the business cost him, in terms of lost salary, $20,000. If he has $100,000 of his own capital invested in the business, and the market rate of interest is 10 per cent, his business cost him $10,000 in lost interest. The businessman made $35,000 by passing up the opportunity to make $30,000. His net profit was $5,000.

Was his $5,000 profit caused by good luck? If he had earned only

Mr. Summers is a member of the staff of The Foundation for Economic Education.

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$25,000, would his $5,000 net loss have been due to bad luck?

Profits and losses could be attributed to luck only if they were the results of completely random processes—such as the roll of dice. If businessmen randomly selected products and factors of production, we could say that profits and losses were purely a matter of luck.

But if businesses were operated in a completely random manner, there would be no tendency for businessmen to emulate successful competitors. Businessmen would never tend to enter a profitable industry, bid up production costs, and reduce selling prices through increased output. If businessmen depended entirely on luck, they would never adopt the methods of profitable competitors—they would just keep rolling dice.

In the real world, of course, businessmen don't depend on luck. They observe competitors and try to learn from their successes and failures. Successful businessmen are not gamblers; they are alert followers of market trends who use their specialized knowledge to anticipate future trends.

But what about innovators who try out new products and new techniques? Aren't they gamblers?

Even the boldest innovators don't randomly select products and factors of production. They know that to make profits they must please consumers while minimizing costs. Thus, they study the market, perform marketing research, and try to reduce costs by conserving labor, capital, and scarce resources. If they fail, the losses are theirs. If they succeed, consumers enjoy a better standard of living. Businessmen succeed by correctly anticipating consumer preferences and efficiently using resources to satisfy these preferences.

Luck is a factor only when events are beyond our control. In a free market each person controls his own property, thereby minimizing the importance of luck. When government intervenes in the economy, however, luck becomes more important—because with property subject to government regulation, economic success becomes less dependent on personal initiative and more contingent on the vagaries of politics.

IDEAS ON LIBERTY

The First Principle

THE FIRST and fundamental principle, therefore, if one would undertake to alleviate the condition of the masses, would be the inviolability of private property.

POPE LEO XIII

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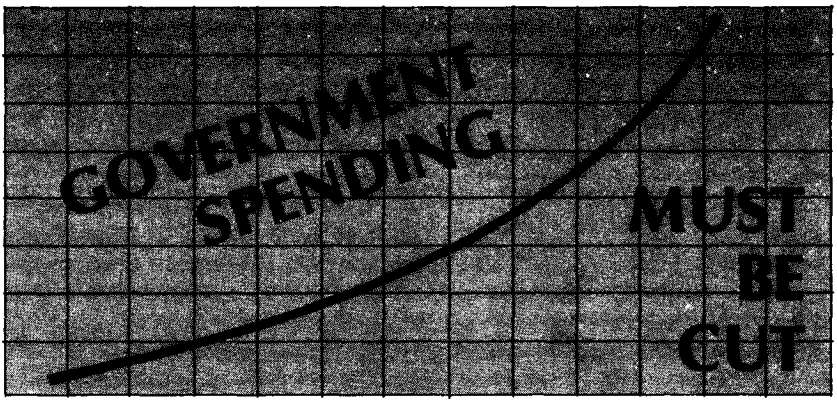
Hans F. Sennholz



THE CASE for lower taxes is clear and compelling. Projected federal expenditures total nearly $500 billion in fiscal 1979 and the budget deficit is expected to exceed $50 billion. Government spending has risen to the point where its burden is felt throughout the American economy. The three sources of government revenue clearly reveal the strain:

1. For many *taxpayers* the levies are higher than ever before, giving encouragement to tax evasion and outright rebellion.

2. The *capital markets* show signs of utter exhaustion from government demands, causing interest rates to rise and security prices to fall. There is moaning among stockholders and bondholders, whose savings have been devastated in recent years. But in the body politic they are outnumbered and outvoted and, therefore, constitute no threat to the politicians in power.

3. *Inflation*, the favorite technique of deficit financing, is accelerating again, reducing the real earnings and savings of millions of people. It is potentially more dangerous to the deficit spenders who are resorting to currency and credit expansion in order to finance their favorite programs. But the spenders continue to hide behind the wall of public ignorance that permits them to put the blame for rising prices on merchants

Dr. Sennholz heads the Department of Economics at Grove City College and is a noted writer and lecturer on monetary and economic affairs. **This article is reprinted by permission from the September 1978 issue of *Private Practice*.**

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and industrialists, on physicians and dentists, on anyone and anything making the news.

The Burden

The public is aware, however, that the tax burden continues to grow. Some taxpayers are saddled with levies that are greater than ever before. They are pleading for tax relief and, in many cases, are organizing for tax protest and rebellion. Many victims have reached the limit of their endurance. Others are submerging in the "subterranean economy," where economic transactions are financed by cash and earnings remain unreported. According to some estimates, more than $175 billion of annual income, or $3,000 per family, are escaping the IRS bite. And this amount is expected to grow as inflation lifts everyone's income into progressively higher income tax brackets.

Moral Strength

Surely, we feel with the countless victims of government spending that consumes more than one-third of national income. We understand their anguish and sense the enduring morality of the cause of self-defense and man's right to the fruits of his labor. But we doubt that their cause embodies the moral strength for overcoming the spending aspirations of contemporary society. It is haunted by self-interest and projects *self* as the central figure on the cause of tax rebellion, while government spending continues to draw its political strength from a loud concern for the poor and underprivileged.

Progressive income taxation in itself is an objective of policy in search of social and economic equality. But it is also an inevitable consequence of a social order that bestows expensive benefits on millions of beneficiaries. After all, government has no sources of income and wealth of its own. It depends entirely on its ability to extract the means from its subjects. It must find victims in order to satisfy the clamor for social benefits and programs, government functions and services.

The tax rebellion is a viable political force, but it can become a moral force only with a simultaneous renunciation of the claims to benefits. The public agitation for lower taxes found powerful expression in the overwhelming acceptance of Proposition 13 by California voters—a referendum slashing real property taxes. The California voters gave new life to many other campaigns to secure reduction in federal and state tax rates. But such campaigns skirt the real issue if they focus exclusively on tax reductions. An essential ingredient of genuine relief and a truly successful tax rebellion is a reduction in the size of government. Without it, a tax rebellion could

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merely result in changes in form that in the end lack substance. It merely would shift the burden of government from some taxpayers to other victims.

Tax Cuts or Spending Cuts?

Some campaigns focus on the potential for increasing government revenue as a result of tax cuts. The Kemp-Roth proposal seems to suggest that no spending reduction is needed as a companion to tax cuts. Its advocates hold out the hope that their particular tax cuts will revive the economy, cause it to expand, compensate for the loss of revenue with new revenue, and simultaneously reduce the relative size of government. They are promising relief for taxpayers, more jobs to workers, higher profits to businessmen, and more revenue to social spenders.

It may well be true that cuts in certain tax rates would spur economic activity and generate increases in revenue despite the tax cuts. A reduction in the capital gains tax, corporate income taxes, and other levies on capital and business undoubtedly would stimulate economic production. But it is unlikely that the relative burden of government would be permitted to shrink. The temporary loss in tax revenue would immediately be offset by revenue from the capital market, causing interest rates to rise and business activity to contract, or from currency expansion, that is, inflation, causing prices to rise. If, nevertheless, the net effect should be expansionary, government, too, will expand. It may even grow faster than the private sector if the deficit is financed by inflation.

Would the political forces pushing for economic redistribution and more government acquiesce in a smaller share of national income? They managed to extract their present share of benefits from a stagnant economy. Is it not likely they would want an even larger share from an expanding economy?

There is no easy escape from the consequences of an ideology of economic transfer and social conflict. A tax cut as a stimulant administered by government surely does not weaken the position of government. It does not even question the transfer function, but instead adds the role of economic stimulator. A tax cut that is accompanied by a spending cut does effectively reduce the burden and size of government. Therefore, explicit limits on government spending are needed to lend substance to a proposal for tax reduction.

The Root of the Evil

It takes great political courage to confront the root of the evil: the appetite for government services and benefits. Most Americans still believe that government owes them

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certain favors, such as income security, public housing and urban renewal, free education and medical care, and so forth. Their call for benefits is an implicit demand that financial means be seized from others. They would not be asking for social programs if they were expecting to cover the costs in proportion to benefits.

Few Americans seek no government favors, and even fewer openly reject them on moral grounds. It is much more popular to seek and accept the benefits of redistribution while objecting to the taxation that covers their costs. Most people freely partake in the economic redistribution, but loudly oppose the necessary allocation of costs. Most professors, for instance, live comfortably on government funds from state colleges and universities, seek federal grants and scholarships, send their children to public schools and colleges, while all along bemoaning their income taxes. They consider the things government does for them as social progress, but decry their tax burdens as oppression and abuse. Similarly, most physicians applaud their own benefits as social justice, but lament their tax burdens as social injustice. They accept the principle of redistribution and endeavor to get "their share" of benefits, but bitterly oppose their allocated share of costs.

Social Conflict

A political society that engages in economic redistribution is torn by social conflict. The beneficiaries seek to impose even more levies and restrictions on the victims, who in turn clamor for their share of benefits and lament their obligations and charges. The bitter struggle is waged in the political arena with ever shifting forces and alliances. Victories or reverses are merely temporary, to be followed by new offensives and counter-offensives in a perpetual war for social benefits. To restore social peace and effect a rebirth of freedom, we must cease from preying on each other through government.

IDEAS ON LIBERTY

The Power of the People

THE PRESCRIPTIONS in favor of liberty ought to be leveled against that quarter where the greatest danger lies, namely, that which possesses the highest prerogative of power. But this is not found in either the Executive or Legislative Department of the Government, but in the body of the people, operating by the majority against the minority.

JAMES MADISON

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World in the Grip of an Idea

Clarence B. Carson

24. The Cold War: The Spread of Communism

THE IDEA that has the world in its grip is not as it is billed or the way it is made to appear by those who favor it. It is not fundamentally an economic idea or theory, though that is the guise that it often assumed from the outset. It is not basically a political theory, although it often appears to be, and there is considerable temptation for those who oppose it to treat it in that way. Instead, it is in essence a power theory or idea, a mode for attaining and exercising power. *All its claims and promises are,* in the final analysis, *but justifications for holding and exercising power.* That is not to say that the attainment or exercise of power is the motive of those who subscribe to or advance the idea. It may or may not be, but that is irrelevant. Rather, the attainment and exercise of power are the unavoidable consequences of the triumph of the idea. Power unlimited is the destination of the victorious idea.

The power motif is implicit in the formulation of the idea that is being used here. There are three parts of the formula:

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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1. To achieve human felicity on this earth by concerting all efforts toward its realization.

2. To root out, discredit, and discard all aspects of culture which cannot otherwise be altered to divest them of any role in inducing or supporting the individual's pursuit of his own self-interest.

3. Government is the instrument to be used to concert all efforts behind the realization of human felicity and the necessary destruction or alteration of culture.

It is, of course, the use of government which makes it a power theory. But that only becomes clear by further examination of the idea.

The idea that has the world in its grip is not an economic idea. Some of the best economic minds of our era have gone to great lengths to expose the fallacies of Karl Marx. On a lesser scale, some thorough economists have examined in detail, and found wanting, the work of John Maynard Keynes. They did so for good reason, no doubt, because the economic thought of these men was having great impact in the world of affairs.

Despite the fact that Marx engaged in a goodly amount of economic analysis, or economic-like analysis, he was not grappling with the problem of economics. The problem of economics is scarcity, and Marx denied the validity of the problem, at least in the context within which he wrote. He and Engels wrote these words, in *The Communist Manifesto:* "In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of over-production. . . . And why? Because there is too much civilization, too much means of subsistence, too much industry, too much commerce."[1]

No more did Keynes perceive the problem as being one of scarcity, at least not scarcity of consumer goods. So far as there was a problem it was a problem of insufficient money with which to fuel demand. Hence, his involved and intricate analysis in support of inflation.

The Use of Political Power to Distribute Wealth

John Kenneth Galbraith, an American Keynesian, of sorts, denied the validity of the problem of scarcity in advanced countries. He put his position bluntly: "Given a sufficiency of demand, the responding production of goods in the modern economy is almost completely reliable. We have seen in the early chapters of this essay why men once had reason to regard the economic system as a meager and perilous thing. And we have seen how these ideas have persisted after the problem of production was conquered."[2]

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The point is this. The formulators and advocates of the idea that has the world in its grip changed what had once been conceived as an economic problem into a power problem. The problem of production had been solved, they alleged; what remained was a problem of distribution. To solve this problem required the use of political power.

It might be supposed, then, that the idea with which we are dealing is a political theory. It is not. Marx had no political theory at all, certainly not one worthy of the name. He had a power theory to explain what government had been in the past. It had been a means for particular classes to wield power over the masses. When the revolution had broken the power of the classes and there remained only the one class—which is to say no class—the state would wither.

Talk of rule by an elite or dictatorship of the proletariat does not constitute a political theory. In any case, this was to be only a transitional phase before the state withered away; no theory had to be constructed for how the power would be wielded. Lenin and Stalin (and Mao) enthroned the state, apparently perpetually, but their political theory can be reduced to a sentence. Power in the hands of an elite is exercised for the working classes; it requires no restraint so long as it is wielded for the masses. But this, too, is a power theory, not a political theory.

Faith in Gradualism

Gradualists, evolutionary socialists, social democrats, twentieth century liberals, or whatever they should be called, often appear to have a political theory. On closer examination, however, it turns out that what they have are the residues of earlier political theories and a political faith. By the nature of their methods, gradualists must give at least lip service to the residue of political beliefs in their countries. If they live in a land that has a monarch, they must profess their loyalty to him. If there is a separation of powers, they may give lip service to this arrangement. But they will be observed always to be working to remove these as obstacles to the exercise of power. Monarchs are reduced to ceremonial nonentities. The separation of powers is evaded by the creation of instruments which bypass the principle, or those powers which obstruct are made of little or no effect.

What gradualists have, in the final analysis, is a political faith. Their faith is in an ideologized democracy, which is best called social democracy, though Americans are not much used to the phrase. To be more specific, their faith is in democracy which entails much more than simply the process by which

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those who are to govern are chosen. It involves also what the ends of the government shall be. Only that government is democratic, according to their faith, which is moving toward distributive or substantive equality. While they ostensibly favor popular or democratic government, only that government which is socialistic in tendency is truly democratic. Otherwise, it has come to power on too narrow a base or has succeeded in misleading "the people" (by corruptly acquiring campaign funds from wealthy patrons, for example). Therefore, it does not legitimately hold power.

This is a power theory, not a political theory. The means by which those who govern are to be selected has been so entangled with the ends for which government is to act that they have become indistinguishable. The will of "the people" has been determined in advance of any election; it is none other than what has been ideologically pre-determined is for the good of the people, i.e., further redistribution of the wealth, greater direction by government of the life of the people, and more restraints on all independent elements working in any other direction. If an election should turn out differently, it must be because the will of "the people" has somehow been thwarted. Such a theory is a program for the acquisition and exercise of power.

It is doubtful that there can be effective political competition with the idea that has the world in its grip. (The full import of this must await discussion at another point.) If it were a political idea among other political ideas this would not be the case. But it is not. It is a power idea wedded to a seductive and most attractive vision. Political competition gets turned into a contest for power to realize the vision by different varieties of means. It becomes a contest over who could use the power most effectively to realize the vision.

In lands where gradualism holds sway, all political parties tend to be drawn into the contest to administer the programs by which a country is drawn into the maws of socialism. Who can best exercise the power by which the people are controlled is the issue. In communist lands, there is only one political party; hence, the issue becomes a contest between individuals as to who shall exercise the power.

The Promises of Socialism

Power, however, within the framework of the idea, is only a means. It is not the quest for power that makes it so difficult, if not impossible, to compete politically with those advancing the idea. All politics is a contest over who shall exercise power. It is the promises that make competition so difficult. How does one compete with the idea that

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all things shall be made right, that justice, peace, prosperity, and felicity shall follow upon their policies? And—and this is the clincher—those who have wronged us from time immemorial shall have their property and wealth taken from them and divided among us.

Gradualists attempt to will out of sight the power by which this is to be accomplished. They do so by trying to hide from us, and perhaps from themselves, the use of force by mesmerizing us into believing that when it is done democratically significant force is not involved. The communists are much blunter. They revel in power but identify it with the people. Theirs is a kind of mesmerism, too, for the personal character of the exercise of power is hidden behind a variety of facades, the most important being that of ideology.

But even the explicit promises do not convey the sweep of the vision that stems from the idea that has the world in its grip. The sweep may not be readily apparent from the opening phrase characterizing the idea, namely: To achieve human felicity on this earth by concerting all efforts toward its realization. Yet it is there, however implicit, and it entails a vision the like of which has rarely, if ever before, been conceived by mortal man. True, the vision of world conquest is not new to our era; it has even been very nearly accomplished within the limited framework of earlier times. But this vision is in significant ways different from and much more than the vision of an Alexander the Great or Julius Caesar.

The Temptation of Jesus

It may be best approached by conceiving it as the vision which Jesus rejected when he underwent the temptations prior to his ministry. According to Matthew, following his baptism Jesus went into the wilderness. He fasted for forty days. Then, he underwent a series of temptations. The culminating temptation is the one that concerns us here:

> Again, the devil taketh him up into an exceeding high mountain, and sheweth him all the kingdoms of the world, and the glory of them;
>
> And saith unto him, All these things will I give thee, if thou wilt fall down and worship me.
>
> Then saith Jesus unto him, Get thee hence, Satan: for it is written, Thou shalt worship the Lord thy God, and him only shalt thou serve.[3]

The conventional interpretation would be that Jesus was tempted to become an earthly ruler, an emperor over all the earth. But it was surely more than that. Given the circumstances, it does not seem likely that to be an earthly ruler would have been much of a temptation. And we are to believe that Jesus was tempted, was drawn toward the idea. His mood could hardly have been such

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that being an emperor as such things are understood would have appealed to him. He had spent forty days in fasting, in contemplation and preparation for fulfilling his mission. How he was to proceed was surely a live question. The temptation was to use power to accomplish *his* mission, not the mission of kings and emperors, but *his* mission.

His mission was to draw all men unto him, a holy, divine, and good mission. Would it not be appropriate to use power—the great force residing in government of an empire—to accomplish his purpose? Why not use the glory of all the kingdoms of the world to draw all men into loving fellowship with one another and union with God? There was a catch, of course. First, he would have to fall down and worship Satan, which is to say, he would have to worship and serve power and force, even as it must be served by those who would use it. Jesus answered him, "Get thee hence, Satan: for it is written, Thou shalt worship the Lord thy God, and him only shalt thou serve." Those who will may learn somewhat of God from that.

The Temptation Revived

The vision which Jesus rejected has been revived in our time. Like the vision which Jesus rejected it is not simply a vision of a world empire or even of world conquest. We misunderstand it when we read it into the framework of ancient empires, or modern ones either. Momentous changes have occurred in the world since the times of such empires, and since the time when Jesus was tempted. The most obvious of these are the great changes in transportation and communication.

Not only is the whole world now known, but its furthest reaches are available within a few hours by jet airplane, and within moments by radio, telephone, and by television signals transmitted by satellites. A vast array of inventions have made available a technology such as has never before been available to man. There have been developments in thought, too, which have changed the complexion of things. Of particular importance are those in psychology, sociology, and economics. Men once conceived of ruling empires; today it is possible to conceive of total control over the peoples of the world.

What can be, and has been, conceived is a vision of all the instruments of the world brought under a single power, or concert of powers, of all the possibilities known for organizing men to be centrally controlled. That is the end toward which all who embrace the idea that has the world in its grip are driven. Communists press toward that goal bluntly, crudely, and, from the outset, oppressively. Gradualists move

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toward it circumspectly, with great outward show of benevolence, and pragmatically. The instruments are there, and the struggle to grasp and control them, and through them all men, is well advanced.

An Idea Activated

Communism was once only an idea. In its Marxian formulation, it was only one idea amongst a goodly number of other socialist notions. But a momentous event occurred in the fall of 1917. The communist idea was joined to power in Russia. The power which Jesus rejected was seized and embraced by Lenin and his fellow Bolsheviks. At that juncture, communism ceased to be an idea only, or even mainly, and became a reality. Those who persist in thinking of communism as an idea will find difficulty in grasping this point. Those who think in this way are inclined to ponder such questions as these. Is Soviet Communism true Marxism? In what ways did Lenin, or Stalin, or Khrushchev alter Marxism? When will the Soviet system pass from socialism to communism?

They are idle questions, of course. They have the same practical import as the question of how many angels can dance on the point of a pin. Lenin put the matter bluntly: "Soviet power plus electricity is communism." It might be better to put it this way, since people get hung up on his reference to electricity in the equation: At this stage in history, Soviet power is communism. Communism is whatever those in power in the Kremlin, or Peking, or Havana, or wherever, determine that it is. Those who do not live in those lands are free, of course, to discuss such questions as those above; those who do live in them have no such happy options. Communism is what the powers that be say it is. But such discussions do not alter the reality which is proclaimed as communism.

My meaning might be clearer if put this way. Prior to November of 1917 communism was only a fantasy. When the Bolsheviks seized power, the fantasy became a reality. A change, big with future portent, occurred. The fantasy produced a new reality, the reality of communism in power. Communism in power became, for all practical purposes, communism. If Soviet power is communism, the reverse is also the case, and it may be phrased this way: Communism is power. Not yet the only power in the world, but the intention becomes clear when we understand that the aim is for communism to become all power, and the only power. The idea is the driving force toward total power, but it is not something distinct from the power, not in Marxian terms; it has become power.

Power is central to communist

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thought and action. "The scientific concept of dictatorship," Lenin said, "means neither more nor less than unlimited power resting directly on force, not limited by anything, nor restrained by any laws or any absolute rules."[4] "When the idea enters the mind of the masses," Marx said, "it becomes a power."[5]

World Conquest

From the outset, it was the aim of Soviet Communist leaders to extend this power over the world. Lenin declared that "the existence of the Soviet republic side by side with imperialist states for a long time is unthinkable. One or the other must triumph in the end. And before that end supervenes, a series of frightful collisions between the Soviet republic and the bourgeois states will be inevitable."[6] Stalin said, "The victory of socialism in one country is not an end in itself, it must be looked upon as a support, as a means for hastening the proletarian victory in every other land. For the victory of the revolution in one country . . . is likewise the beginning and the continuation of the world revolution."[7] In an even more famous statement, Khrushchev blustered, "Our firm conviction is that sooner or later capitalism will give way to socialism. No one can halt man's forward movement, just as no one man can prevent day from following night. . . . Whether you like it or not, history is on our side. We will bury you."[8]

Although the entry of Red China has brought about some differences in the communist camp, the Central Committee affirmed its commitment to the overall aim in these words:

> The Chinese Communists firmly believe that the Marxist-Leninists, the proletariat, and the revolutionary people everywhere will unite more closely, overcome all difficulties and obstacles, and win still greater victories in the struggle against imperialism and for world peace and in the fight for the revolutionary cause of the people of the world and the cause of international communism.[9]

The spread of communism around the world is one of the most remarkable, if not *the* most remarkable, developments of the twentieth century. Communism has now spread into every country in the world. I do not mean simply that communist ideas have been spread in every country in the world. That is obviously the case. There is surely not a major library in the world that does not have some books or compendiums of the teachings of Marx, Lenin, Mao, or others. It would hardly be possible to teach a course on twentieth century history without summaries of and probably quotations from various communists, and the same goes with greater or lesser validity for philosophy, economics, political science, and sociology. Nor

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is it simply the case that educated people must be in some degree acquainted with communism. It is also the case that amongst those who are illiterate, or barely literate, there must be few who have not picked up and embraced some of the communist doctrines.

A Universal Movement

Ideas know no boundaries, and there is enough within Marxism that is universal to assure us that almost everyone holds or has encountered at least some of the notions that have place in the ideology. In any case, twentieth century transportation and communication make it almost inevitable that all sorts of things are spread around the world, quite often with great rapidity.

Something much beyond the spread of ideas has taken place. Communist power has spread around the world and into every country in the world. That is what is remarkable. The Bolshevik seizure of power in Russia was the prelude to the extending of the tentacles of that power into every land in the world. The meaning and import of this is not readily grasped. Our modern notions of diplomacy, of national sovereignty, of international relations, and of political theory provide no categories with which to conceive it. Even the conception that communist power extends itself by a conspiracy to take over the government is much too confined and narrow a concept. For when I say that communist power has already spread into every land, I mean to convey the understanding that it is already there and operating, not that it may some day overturn the government. The presence of communist power in every land has already reduced national sovereignty and is contesting over the monopoly of that power.

Secret Police as the Arm of Soviet Power

The manner of the spread of communist power may be best explained by the description of the power mechanism of the Soviet Union. It is true that today there is a communist power independent of the Soviet Union—Red China—but the Soviet Union has much the longer history and has served as the model for all communist exercise of power. (Indeed, the ideological struggle between the two has been highlighted by differences over Stalinist tactics, championed by the Chinese, and downgraded by the Russians.)

Soviet power is exercised by and concentrated in the secret police. The secret police have been called by many names over the years—CHEKA, GPU, NKVD, MGB, and KGB—, but their role has remained constant since the beginning. Today, the KGB is supplemented by the

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GRU, which is the military branch of the secret police. John Barron has described the role of the KGB this way:

> . . . In everything it does, within the Soviet Union and without, the KGB thinks of itself as being the "Sword and Shield of the Party," and this is probably its best single definition. For the KGB serves not so much the Soviet state as the Communist Party and, more particularly, the small coterie of men who control the Party. It is the sword by which Party rulers enforce their will, the shield that protects them from opposition. The characteristics of the KGB which distinguish it from other clandestine organizations, past and present, all derive from the inordinate dependency of the Party oligarchy on the force and protection it provides. Because preservation of their power depends so on the KGB, the Soviet leaders have vested it with resources, responsibilities, and authority never before concentrated in a single organization.[10]

The secret police serve not only as the arm of Soviet power within Russia but also around the world. They are present in all countries of the world, always undercover, on embassy staffs, in legations, or engaging in any number of other operations. The gathering of intelligence from foreign countries is one of their major activities, of course. But beyond that, they use whatever means are available and necessary to enforce the will of the Kremlin on all who fall under the sway of communism. They are the invisible mechanism of communist power.

The Role of the Party

The visible mechanism of communist power in any land is the communist party. Its presence in any country is the sign that the revolution has begun. Its task is to proclaim the revolution, to arouse discontent, to draw into its fold adherents who can be trained and disciplined, and, when the time comes, to provide the personnel for taking over the power of government. Although much party activity is undercover, and party membership is usually kept secret, the party is itself a cover. It is a cover for the foreign character of the communist intrusion. It provides what appearance there can be that communism is a native movement. Yet these communist parties have generally been captive parties, instruments of foreign powers who controlled them.

Elizabeth Bentley, who was for several years a communist espionage agent in the United States, says that Earl Browder, then head of the American Communist Party, was fearful before and but a figurehead for the Soviet powers.[11]

The size of a communist party is not usually a crucial factor. No party anywhere has ever come close to including a majority of the electorate. Nor would such a large, unwieldy, and undisciplined party be

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considered desirable. Not politics but power is the object of communism. Leverage is the principle on which communists gain and occupy power. If a majority were to vote for a communist candidate or for a party slate, leverage would be gained by a small minority, usually within the party.

In any case, conditions are supposed to provide the setting for communists to come to power, not numbers. To Marx, the conditions were supposed to be provided when capitalism had reached a certain stage. For Lenin, and his successors, the conditions were right at any time when a government became sufficiently irresolute, weak, or divided and confused in its counsels. Any number of things can produce such conditions: military defeat, military conquest, civil war, political elections, terrorized officials, and so on. It is at this juncture that the resolute and disciplined party plays the decisive role at the forefront of revolution.

Post-War Expansion

In the countries of eastern Europe the conditions for a communist take-over were right by way of military defeat and the presence of the Red Army after World War II. Soviet leaders had carefully nurtured the communist parties of these nations during the war, had even provided a place of exile for them in the Soviet Union. Although there were variations from land to land, Hugh Seton-Watson says that in general the take-over went through three stages:

> In the first phase government was by a genuine coalition of parties of left and left centre. The coalitions in all cases included communist and socialist parties. . . .
>
> In the second phase government was by bogus coalition. Several parties still nominally shared power and possessed independent organisations: but their leaders were in fact chosen not by them but by the communist leaders, and the policies of the coalitions were determined by the communists. . . .
>
> In the third phase the bogus coalitions were transformed into what the communists like to call a "monolithic block." The communist leaders not only laid down the lines of policy, but centrally controlled the organisation and discipline of the non-communist groups that were still left in the governments. Socialist parties were forced to "fuse" with communist parties. No more political opposition was tolerated in parliament, press or public meeting.[12]

How this power was seized is particularly instructive:

> Already in the first phase . . . the communists seized certain key positions. The most important of these was the Ministry of Interior, which controlled the police. . . . The Ministry of Justice, controlling the formal judicial machinery, was considered less important, but was held by communists in certain cases. Control of broadcasting was seized at an

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early date. Great efforts were made to control and to create youth and women's organisations. In industry, communists were placed in key positions in the management of nationalised factories and in trade unions.[13]

These were, as Seton-Watson says, the "Levers of Power."

Indoctrinating and Training the Communist Cadres

Sometimes within the secret police, sometimes within the parties, but always the strength and power of communist organizations are what are called the "cadres." The term "cadre" is taken from military usage, where it refers to those who are assigned the task of indoctrinating, training, and disciplining military forces. They are the dedicated communists, those who have been most thoroughly molded, trained to absolute obedience to the powers over them.

"The ideal type of the Communist," Frank Meyer said, "is a man in whom all individual, emotional, and unconscious elements have been reduced to a minimum and subjected to the control of an iron will, informed by a supple intellect. That intellect is totally at the service of a single and compelling idea, made incarnate in the Communist Party: the concept of History as an inexorable god whose ways are revealed 'scientifically' through the doctrine and method of Marxism-Leninism."[14] The "cadres" consist of all those who have been most thoroughly molded into this pattern. It is the cadre, not the formal party, Meyer pointed out, that is competent to the task that Stalin assigned the party, namely, "the only organization capable of centralizing the leadership of the struggle of the proletariat, thus transforming each and every non-Party organization of the working class into an auxiliary body and transmission belt linking the Party with the class."[15]

These, then, are the main instruments for applying power. Applying power on what? In answering this question we come to the heart of communism as power. So far as communism is a power theory, it is a theory of the exercise of power by a tiny minority over the whole of peoples. How is it done? It is done by occupying pivotal positions in organizations. It is important to understand that any organization will do for the purpose, any organization that has people under its control in any way: police, armies, churches, corporations, businesses, clubs, political parties, governmental units or whatever. Those who think of "communist front" organizations as only facades mistake the principle. They may be facades and covers so far as the ultimate purpose is concerned. But they are as important to communism as they would be if they revealed their purpose completely,

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for they are instruments of the revolution in progress.

The Organizational Structure

The spread of communism proceeds, then, by the creation, penetration, and infiltration of organizations. Otto Kuusinen, one of Stalin's men, described a part of the process this way in 1926, "We must create a whole solar system of organizations and smaller committees around the Communist Party so to speak, smaller organizations working actually under the influence of our party. . . ."[16] Willi Muenzenberg, considered somewhat of a theoretical genius on communist movement by way of organization, declared: "We must penetrate every conceivable milieu, get hold of artists and professors, make use of cinemas and theatres, and spread abroad the doctrine that Russia is prepared to sacrifice everything to keep the world at peace. We must join these clubs ourselves. . . ."[17] The eventual aim can be deduced: it is either to destroy or to control all organizations within a society. It is only when there is no longer an independent organization, or an independent person, that the triumph of communism is complete.

An analogy may help in grasping the mode of the spread of communism. From where I sit, I can see across the road to a field covered with Kudzu. Not so many years ago most of the area covered by Kudzu was a cultivated field. I do not know how the Kudzu got started there. How it got started in this part of the country is not a mystery, however. It was deliberately set out. If memory serves, it was recommended by agricultural experts as a means of stopping soil erosion. (The government may even have provided the seedlings without charge, or for a nominal price.) It does stop soil erosion in those areas to which it spreads, but it does much more than that.

Kudzu is a vine, for the information of those unacquainted with this ubiquitous plant. It is a perennial on which large leaves grow in season. Indeed, Kudzu is a pretty enough plant, such a vine as an innocent person might set out to provide shade over an arbor. But it has a monstrous trait. It spreads. And spreads. And spreads. It can only be stopped from spreading by uprooting it, although it will not directly cross a well traveled road. And it chokes out all plant life over which it spreads. The cover of leaves is so thick during the season that plants depending on the sun to carry out photosynthesis, which is to say all non-parasitic plants, must succumb. Even large trees in its path must eventually be overcome by it. No independent plant life can co-exist with it.

Being across from it on a well traveled road is no protection, however. Kudzu produces seeds which

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can be blown across the road by the wind. That must have happened already to my neighbor, for some sturdy vines have taken root there. If it is not nipped in the bud, so to speak, it will spread over that land, and from thence to wherever it can, covering and crushing out all plant life as it goes. Kudzu is a power plant, as it were, and moves relentlessly to become the only power.

Communism is analogous to Kudzu in its spread over the world. But communism is not a plant; it is an idea. It is idea joined to power. It is spread not by the wind but by terror. That aspect of it needs now to be examined.

Next: *25. The Cold War: Terrorizing Many Lands.*

—FOOTNOTES—

[1]Eugen Weber, *The Western Tradition* (Boston: D. C. Heath, 1959), p. 609.

[2]John K. Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1958), pp. 319-20.

[3]Matthew 3:8-10 (KJV).

[4]John Barron, *KGB: The Secret Work of Soviet Secret Agents* (New York: Bantam, 1974), p. 2.

[5]Frank S. Meyer, *The Moulding of Communists* in *Omnibus* Volume 3 (New Rochelle, N.Y.: Conservative Book Club, copyright Harcourt, Brace and Co., 1961), p. 25.

[6]Quoted in M. Stanton Evans, *The Politics of Surrender* (New York: Devin-Adair, 1966), p. 26.

[7]*Ibid.*

[8]*Ibid.*, p. 27.

[9]John W. Lewis, ed., *Major Doctrines of Communist China* (New York: Norton, 1964), p. 279.

[10]Barron, *op. cit.*, pp. 9-10.

[11]See, for example, Elizabeth Bentley, *Out of Bondage* in *Omnibus* Volume 6 (New Rochelle, N.Y.: Conservative Book Club, copyright Devin-Adair, 1951), pp. 125-26.

[12]Hugh Seton-Watson, *From Lenin to Malenkov* (New York: Frederick A. Praeger, 1953), pp. 248-49.

[13]*Ibid.*, p. 255.

[14]Meyer, *op. cit.*, p. 15.

[15]Quoted in *ibid.*, p. 14.

[16]Quoted in Eugene Lyons, *The Red Decade* (New Rochelle, N.Y.: Arlington House, 1970), p. 47.

[17]*Ibid.*, p. 48.

IDEAS ON LIBERTY

Elbert Hubbard

THE weaknesses of the many make the leader possible—and the man who craves disciples and wants followers is always more or less of a charlatan. The man of genuine worth and insight wants to be himself; and he wants others to be themselves, also.

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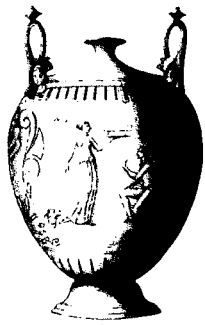
William L. Baker



Native Pottery Only

THE CIVIL WAR had just begun. The nation's new President, Abraham Lincoln, had received the news of the bombardment of Fort Sumter with a great deal of trepidation. Now it was his turn to act. But what to do? How best to meet this challenge to the armed might of the United States of America? Shortly after the news of Fort Sumter reached Lincoln, he had closeted himself in conference with the venerable hero and Chief of Staff, General Winfield Scott. As usual, Scott had some answers.

One of Scott's solutions particularly struck home with the new president. During the course of their meeting, General Scott had repeatedly emphasized the necessity of forming a naval blockade of all the Southern ports in order to isolate the fledgling Confederacy and cut off their foreign trade. And, while this would be an expensive maneuver involving hundreds of ships and thousands of men, it would be essential in weakening and curbing as quickly as possible the armies of the rebellion.

The reasoning behind this was very simple: besides being the oldest tactic in military history—tried, tested, and proven—it stood to reason that the fewer imports a nation (or city) receives from outside sources the worse off it becomes economically and, thus, militarily. Military experts had always realized that trade and commerce were the lifeblood of a nation and that the sooner it could be stopped the better it was for the opposing side. Such a blockade, Scott realized, would spell doom to the enemy.

So on April 19, 1861, Abraham Lincoln, along with General Winfield Scott, devised the blockade that would be put into effect as soon as possible. This plan, which later became known as the "anaconda plan," was to prove instrumental in crush-

Mr. Baker teaches in the school system in Lubbock, Texas.

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ing the life out of the vibrant Southern economy. In no time at all Admiral Porter of the Union navy had put the paper plan into effect. He would make the South writhe and groan until they would eventually have to sue for peace. In later years the Supreme Court declared the "anaconda plan" as the official beginning of the War Between the States.

As the Union ships were engaged in the vital task of squeezing the enemy dry, what were the President and the Congress doing back home? Why nothing other than devising elaborate and prohibitive tariff schedules in order to keep the "invasion" of "foreign" products out of the Union! Imports would surely destroy the Northern cause, they reasoned. What the North needed most of all was "protection." So while Union ships blockaded the South by sea, the honorable Congress was doing the same thing to the North at home. What Southern sea captains could never once accomplish in four years of war, the Congress did for them in a matter of weeks by political action.

The Blockade of the North

Barriers to trade rose higher than ever before in the attempt to "protect" the North. Confederate ships were therefore freed to prowl the lanes further out on the high seas since the boys in Washington were doing such an admirable job without them. They could now have more leisure to ferret out those few merchantmen who were officially allowed through the lines. They could also find more of those who simply chose to bear the risks of smuggling goods into Yankee ports and hamlets. In this respect Confederate vessels actually found themselves as enforcers of the Congressional mandate of restricted trade! Confederate raiders made no distinction between "legal" or "illegal" trade.

What is often neglected in the history of the Civil War is not the "blockade runners" of the South who have received plenty of plaudits for their daring exploits, but the "blockade runners" of the North who had their work cut out for them by attempting to slip the blockade of the Northern coast by Northern ships and customs agents that their own Congress had imposed upon the country at the very beginning of the war.

Apparently the logic of the situation never once dawned upon the President or the Congress that acted so hastily to put his economic plans into effect. If the North was "protecting" Union industry from the evil effects of international trade by Congressional action, wasn't it doing the same by anchoring warships off Southern ports for better than three thousand miles? The story of Haman, who unknowingly

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built his own gallows, could not have been more ironic!

And when the tariff blockade seemed to be developing leaks, Congress merely tightened the garrote a bit tighter around the North's windpipe, thus choking off needed manpower and supplies which Europe had to offer. All the while this little tragi-comic charade was going on, there were actually Union leaders who felt that more warships were needed to blockade the South in order to catch the blockade runners who were slipping through the net.

What the Congress should have done in order to be consistent with their own untenable economic doctrines would have been to recall every Union ship, scrap the blockade, and let the South kill itself from the "invasion" of "foreign" goods which would surely "glut" the domestic market, thus "flooding" the Southern economy with products which would destroy business and bring the war to a hasty conclusion!

Fortunately for the North, the Union navy was more efficient in destroying the Southern trade than the Congress was in choking off Union supplies. But try as they might, the politicians in the capital could not outshine the navy on the high seas. It is true that the solons inflicted incalculable damage upon the Northern market during the course of the war. But the few Northern ships that were assigned to blockade the Northern coast simply could not inflict the kind of damage to Union-bound shipping that their more numerous colleagues assigned to block the Southern coast could inflict upon the South. As a result, the North floundered along without the full benefits of trade with a Europe that was more than willing to provide the materials so desperately needed to terminate the war.

Continuing War on Trade

Most historians dwell at great length upon the comparative advantages of the North over the South during the Civil War. That which usually receives the greatest emphasis is the higher productivity and resources of the North. And while all this is true, it fails to consider the resources and productivity *that could have been available* had free trade been allowed. In effect it is not so much the pounding that the South gave the North during the war, but rather the pounding which Congress gave the North, by depriving itself of the benefits of free trade, that deserves more attention.

Today warships continue to prowl the coastlines and to ply the lanes of commerce in order to "shield" the nation from the "invasion" of Australian beef, Japanese steel, and so forth. Even in this modern age the old trade-is-war doctrine continues

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to guide national policy. The United States continues to look at "foreign" goods as a calamity to be avoided at all costs. Recent broadsides against the market prove that the spirit of tyranny and war still lives in the hearts and the minds of the "planners" and policymakers. These bombasts seem to come ever closer to the waterline of the market and its functions. Yet, in spite of it all, the market continues to operate—if at a much reduced level of efficiency.

This attempt to bring the economics of warfare to the market has resulted in untold misery for all of mankind who stand to benefit from the cosmopolitanism of the free market. This perpetual assault on trade and the well-being it brings has offered, instead of a vast cornucopia of wealth, the specter of the pale horse and the pale rider of war and man-made famine. The doctrine of "protectionism" has never resulted in anything other than planned chaos. Nor is this a doctrine that has sprung up full grown from the ashes and motivations of the War Between the States. As far back as the days of the Greek Herodotus in the fifth century B.C. we are told that it was against the law for anything that was of Athenian origin to be brought into a certain Greek temple. Only "native" pottery would do. "Protectionists" were alive and well in his day too.

It is no different in our day. We still hear arguments about the "evils" of "foreign" products, arguments which were exploded by economists generations ago. We still hear preached as official ideology the tragedies and horrors of allowing the market to "flood" us with a "glut" of "cheap" goods which the international (foreign) market has to offer. We see farmers blocking roads on the Mexican border, attacking trucks as policemen stand by and sympathetically witness the carnage. We see organizations of such men who call themselves "soldiers" (in the true spirit of warfare) pleading for "sympathy and understanding" from their fellow citizens. We hear the neat little cliches that are intended to take the place of ideas and intelligent thought. We hear the martial strains of propaganda telling us to "rally round the flag." After all it *is* "Our America."

The tones and pleas of the petty provincialists of trade restriction have not changed one bit over the eleven decades since the Civil War. Neither have the effects of their policies which continue to be a blight upon men and an assault on intelligence wherever and whenever such doctrines are implemented. The war on the market—and thus civilization—goes on.

Native pottery only, please!

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E. C. Pasour, Jr.

AUSTERITY, WASTE, and NEED

In recent years U.S. citizens have been encouraged to waste less and adopt a more austere life style. We have been chastised for our energy-intensive habits. We eat meat instead of cereals; we drive large cars, drive when we could walk, keep our homes warmer than needed, and engage in many other "wasteful" practices. More generally, U.S. citizens have been criticized for the use of luxury goods and for using a disproportionate amount of the world's resources.

There is a great deal of concern about the ability of reserves of fossil fuel and other resources to support projected levels of population. Extrapolation of current trends in resource use in the *Limits to Growth* and other "Doomsday Models" lead to the specter of the world grinding to a halt within the next century or so as currently known resources are depleted. What should be our posture toward the use of energy in the production of agricultural and industrial commodities? What is the appropriate approach to take toward legislation mandating mileage standards for automobiles, mandating insulation standards for home and office buildings, banning the use of cereals for livestock feed, and so on?

Conventional wisdom holds that we should eliminate waste in the use of gasoline, electricity, and other resources. The concepts "need" and "waste," however, are far more complicated than the widespread use of these terms suggests. The philosophy of austerity rests on an insecure basis and leads to measures that are harmful and contradictory. This essay explores the meaning of

Dr. Pasour is Professor of Economics at North Carolina State University at Raleigh.

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"waste" and "need" and compares the effects of market and nonmarket rationing procedures.

Waste and Need

During the energy crisis following the OPEC oil embargo, individuals were encouraged to reduce waste in the use of food, energy, and other raw materials. The same pleas were heard again in the winter of 1976-77 during the fuel crisis. If individual citizens are to respond intelligently, they must be able to identify waste.

The concept "waste," however, has little or no objective content and appears to be closely related to the term "need." Furthermore, the concept of "need," is meaningless as a guide in determining one's consumption pattern. It is impossible to define objectively the goods and services we "need." How much meat, housing, heating fuel or gasoline, for example, do we "need?" The concept "need" implies that, regardless of price, there is some minimum amount of meat, housing, heating fuel, or gasoline (or any other good or service) that is essential to our livelihood. We observe, however, that people reduce consumption when relative price rises for any good or service including gasoline, coffee, meat, and housing.

The amount "needed" of any good depends on the price of that good relative to the price of other goods. The "need" of Jones for coffee depends on his subjective valuation of coffee and coffee substitutes. It is an illusion of bureaucrats and consumerists that the U.S. Congress, the Federal Energy Administration, or Ralph Nader can determine our individual "needs." Even we as individuals can only determine our own needs in the sense that we decide how much we prefer at given prices. When the relative price of a good changes, however, our "needs" change in the sense that we prefer to purchase more or less of the good. There is no known example of any good where the quantity purchased remains the same when there is a large change in its price relative to the prices of other goods.

The concept "waste" implies that amounts of a product which exceed our "needs" level provide no additional satisfaction. If this were in fact the case, amounts of the product above this "needs" level could be removed at no loss of satisfaction to the consumer. When we investigate commonly cited examples of "waste," however, we find that the goods presumably wasted are, in fact, contributing to consumer welfare. If the goods alleged to be wasted were providing no satisfaction, coercion would not be required to reduce use.

The use of the family auto provides a good example of the point being made. It is frequently alleged that the typical motorist wastes gasoline by using his auto when it

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isn't "needed." We observe that people drive their car when they could walk, ride a bicycle, or form a car pool. This fact that people use their car when alternatives are available doesn't mean that the use of gasoline used in this way is "wasted."

There is no denying the fact that auto users could get by with much less use of the auto. The fact that motorists *could* reduce auto use however, does not imply that it is in their interest to do so. Each motorist will act in the way which is most beneficial to him given the costs and benefits of various alternatives as they are perceived by him. Consumers respond to relative transportation costs in deciding where to live, how to get to work, where to vacation, and the like.

We observe that motorists economize in numerous ways when costs of auto travel increase. As gasoline prices increase, for example, there is substitution in favor of smaller autos, more bicycling, more car pooling, shorter vacation trips, and so forth. The fact that less gasoline is used when price increases does not mean that the larger amount used at the lower price was "wasted." One might, to the contrary, argue that at a lower price larger numbers of consumers are able to benefit from a particular good or service, and therefore a lower price is an efficient means of effecting a widespread distribution of some item of value.

People economize in the use of scarce resources in responding to their own self-interests. This does not mean that all people respond to a change in prices in the same way. We expect individuals to make different accommodations to any change in relative prices reflecting their own unique situation and preferences.

The preceding discussion implies that there is no objective basis by which an outside observer can determine the amount of gasoline any particular motorist "needs." If "needs" cannot be objectively determined, decisions made to limit use through administrative controls must be arbitrary and capricious.

Relative Prices vs. Need

It has become fashionable in recent years to suggest that people in the U.S. and other highly developed countries should base their consumption not on relative prices but on "need." The problem as indicated above is that need and waste concepts apart from relative prices provide no operational criterion by which the consumer can make choices. What do we "need," for example, in the way of clothing, electricity, gasoline or food? It has been shown that a nutritious minimum cost diet can be formulated for people as is done for livestock. Such a diet would

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enable U.S. families simultaneously to have a more nutritious diet and to reduce food expenditures to less than one-half their current level! Is this the food budget we "need?" Can all food expenditures in excess of this minimum cost nutritious diet properly be considered waste? Few of us will agree to sacrifice all palatability considerations and rely solely on cost considerations in choosing our diet.

The same problem arises in the use of gasoline, electricity, and in fact, all goods and services. How does one decide what size car to drive, amount of electricity to use, temperature to set the home thermostat? We, as consumers, respond to changes in relative prices in deciding what to eat, where to live, how to travel to work, heat our homes, and so forth. Each of us would do virtually everything we do in some other way if changes in relative costs were sufficiently large.

Attempts to get people voluntarily to change consumption habits are unlikely to have much effect so long as relative prices remain unchanged. On the other hand, when relative prices change, no one has to encourage consumers to make adjustments in the mix of goods consumed—regardless of whether the good is coffee, beef, gasoline or heating oil. In recent years, as relative prices changed, we have observed pronounced changes in size of auto, in meat consumption, in coffee consumption, in use of electricity, and the like. Market price will effectively ration goods when prices are not held down by administrative decree. There is no known example of a shortage persisting over time where price was relied upon as the rationing mechanism.

Problems of Non-Market Allocation Methods

Few people who suggest that consumers should make choices related to food, gasoline and other products on the basis of some criterion other than price recognize the problems to be overcome when the market mechanism is abandoned or market signals are ignored. Price in a market economy provides signals to both consumers and producers. The market is a highly useful mechanism for determining and transmitting information between all persons in the market. If the market is not permitted to coordinate the decisions of consumers and producers, central direction must be used. However, there is no way for the central planner to obtain all the information which enters into any real world market transaction. Knowledge about no good or resource exists in concentrated form or in a single mind. The economic problem, as Hayek has long stressed, is to secure the best use of our resources utiliz-

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ing the knowledge of all members of society for ends whose relative importance only these individuals know.

In the absence of market signals, the regulator faces severe information problems. When the market is abandoned, the planner has no way to determine the information necessary to coordinate supply and demand. Consider the problem of determining the "appropriate" temperature setting, for example, where energy use is to be restricted not by price but by restricting fuel use. The regulator must not only predict the amounts which will be used at various settings, but also the amount which will be produced at the price level which is arbitrarily held below the market-clearing level.

Mandatory allocation or rationing schemes cannot be based on individual preferences and must be arbitrary and capricious. "Need" has no objective content as a guide to allocation, and in the absence of price signals there is no way for the central planner to make an allocation which reflects the subjective considerations of all persons in the market.

Problems are also created for the individual consumer who unilaterally adopts austerity measures and does not respond to market signals. Attempts by a single individual to reduce consumption of food, energy, and other raw materials beyond the level dictated by relative prices will serve little or no useful purpose. If an individual, acting alone, reduces the level of consumption, the effect on total consumption will be negligible. For example, consider the effect of a decision by one "socially aware" person to reduce gasoline use. The effect on total gasoline usage will be negligible but the inconvenience to that individual can be quite large. If the individual is in business such a decision will increase costs and under competitive conditions will seriously decrease profits or bankrupt the entrepreneur attempting to "do good."

Appeals for Group Action

What are the possibilities for group action? If large numbers of consumers reduce consumption below the level dictated by relative prices, producers receive incorrect signals. Consider, for example, the effect of consumer boycotts of beef, coffee and other goods. A reduction in demand will decrease price, given the level of supply. The decrease in price resulting from the boycott is likely to reduce future supply and cause future prices to be higher than they would otherwise be. Unless the product is effectively monopolized, there is no way for group action by consumers to reduce the long run price of the product.

What do these comments imply about moral suasion as a method of rationing and reducing resource

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use? Pleas to reduce use may be effective for a limited period of time when the situation is deemed to be urgent by a large part of the population. The problems enumerated above which arise when market signals are ignored are not eliminated by moral suasion. Moral suasion is also subject to another set of problems.

First, there is the free rider problem common to all voluntary group activity. These activities confer benefits on people who cannot be made to pay for the benefits they receive. When the demand for gasoline is reduced by everyone except Jones, the price is decreased. Jones as a free rider will benefit through the lower price and use *more* gasoline. Moral suasion may be effective for a limited period of time but it cannot solve the free-rider problem associated with pleas to reduce gasoline use, lower thermostats, and otherwise reduce resource use below the level dictated by market prices.

Second, moral suasion to reduce resource use to one's "needs" or to reduce "waste" is subject to all the problems associated with identifying "waste" and "need" discussed above. There is no objective basis upon which the "socially concerned" citizen can determine the proper level of energy use. Consider, for example, the natural gas shortage during the winter of 1976-77 and the pleas to reduce "waste" in home heating. Upon what basis can the "socially concerned" homeowner decide whether to heat his home to 68°F, 65°F, 60°F, 55°F (or even lower)?

Third, even if moral suasion is effective and all citizens fully comply with, say, a request that thermostats be set at 62°F, the impact will differ greatly from person-to-person. Such a policy as in the case of mandatory restrictions assumes that everyone has similar circumstances. In reality, people differ greatly in their preferences for heat and in their preferred tradeoffs between heat and other sources of expenditure including size of house. The differential impact of any restriction in use of any good or resource is greatly magnified if an attempt is made to indicate the appropriate *amount* to use, *e.g.*, 10 gallons of gas per car per week or 1000 KWH of electricity per month. The circumstances of time and place vary greatly from person-to-person.

Conservation and Rationing

A great deal of effort has recently been devoted to reduce "waste" of natural resources. The effects of such efforts, however, may be inconsistent with other closely related goals. First, consider action to reduce waste of *renewable* resources. Environmentalists and consumerists have been active in promoting recycling of paper in recent years as a

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way of conserving trees and protecting forests. Moves to reduce "waste" by reducing the use of paper and other wood products will be counterproductive for people who desire large amounts of forests for their esthetic value since such action will *reduce* the number of trees being grown. Tree producers respond to economic incentives just as other producers do. Thus, the more wood products used, the more trees will be produced. The more trees produced, the more land required for tree production and the larger the forest acreage. People who like to see trees growing are working against their own self-interest when they discourage the use of forest products.

Another simplistic solution, bans on the use of cereals in feeding livestock or forced reductions in meat consumption, will likewise not accomplish the intended goal. Jean Mayer, the famed nutritionist, has suggested, for example, that America could release enough grain to feed 60 million people by reducing meat consumption by 10 percent. Measures to reduce grain fed to livestock or to reduce meat consumption, however, are unlikely to be effective in providing food to the world's hungry people. The hamburger not eaten in the United States will not miraculously appear in the hands of a hungry person in another land.

How about the use of nonrenewable resources including oil, coal, and the like? It is in the owner's interest at any point in time to exploit these resources in such a way as to maximize the wealth, or value of these resources. As nonrenewable resources are used, increasing scarcity will be reflected in two ways. First, the price will be bid up as the resources become progressively scarcer. When this happens consumers are induced to economize on the use of the resources. The market provides an effective system of rationing scarce resources both at a given time and over time.

Shortages Created

When prices are arbitrarily held down by government as in the case of natural gas, a shortage is created or exacerbated. The natural gas crunch in January 1977 can be traced directly to current and past government price controls. These price controls have kept prices artificially low and have given incorrect signals to gas producers and consumers. Low consumer prices have encouraged the "wasteful" use of gas by discouraging the use of home insulation, alternative fuel sources, lower thermostat settings, and so on. Low producer prices, at the same time, have reduced the incentives of suppliers of natural gas and served to decrease production.

In addition to involving less government intervention and red tape,

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price rationing provides a far more predictable method of restricting energy resource use when contrasted with administrative decrees such as mandatory standards for home insulation and auto mileage. When price increases, people will economize in different ways depending upon their own subjective evaluations. If the price of home heating fuel increases, for example, some people will reduce the temperature in all rooms, some will apply more insulation, some will close off rooms, and so forth.

When mandatory conservation standards are imposed, on the other hand, there is little latitude left for individual ingenuity. Everyone is forced to meet the same standard even though people having different tastes and preferences would economize in different ways if left free to do so; or alternatively, individual ingenuity is now channeled to the circumvention of the mandatory standards rather than to the solution of the problem for which those standards were allegedly imposed.

There is no way mandatory standards can cater to the diversity of individual tastes or take into account the differences existing in literally millions of different circumstances. The fundamental inequity of treating people in unequal circumstances the same way is ignored. Why, for example, should the homeowner with children now away from home be forced to insulate his entire house though heating and using only half the house? In this and numerous other examples it is easy to see how the individual homeowner can make an accommodation much easier to higher prices than to mandatory standards which cannot reflect different tastes and circumstances.

As non-renewable resources are exhausted, increasing scarcity is reflected in a second way. As price is bid up, the development of substitute resources is encouraged. The cotton price support program instituted in the 1930's, for example, encouraged the development of nylon and other substitutes none of which were predictable when cotton prices were increased. Similarly, increases in prices of fossil fuel will serve to increase the development of new energy sources. Higher fossil fuel prices serve both to make alternative fuel sources currently available more profitable and to encourage the development of energy sources not currently available.

Conflicts Minimized

Finally, the market minimizes conflicts when compared with nonmarket rationing methods. The market is based on voluntary exchange so that all parties gain when a market transaction takes place. There is little basis for concern or

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antagonism when everyone can purchase all of a product he desires at a specified price.

The situation is much different when rationing is performed by non-market methods. The creation of antagonism and conflict is inherent in non-market rationing procedures since more of a product is desired than is available at the price arbitrarily held below the market clearing level. In such a situation an individual can legitimately feel that he is in competition with other consumers for the product whose price is controlled. The equity problems endemic in non-market rationing procedures were discussed above.

Allegations of antisocial conduct frequently arise where nonmarket allocation procedures are used. Each person has a vested interest in reductions in consumption by other people when there is a shortage. Individuals consuming more than they "need" as perceived by the outside observer are alleged to be wasteful. Since "waste" is in the eye of the beholder, efforts to reduce waste must be authoritarian in nature. Such efforts must be based on the values as perceived by the state and not on the values of individual decision makers.

Blaming Producers

Nonmarket allocation procedures also give rise to will-of-the-wisp attempts to determine whether producers are holding back production and whether costs of production are excessive. There will always be a perceived conflict between producers and consumers when production is subject to price controls. Consider the action by the Secretary of the Interior in February 1977 to determine whether producers of natural gas were "holding back production." The allegation was made that producers might be acting against the "public interest" by holding back on production under the expectation that future prices might be higher. Thus, a producer who reduces the amount of natural gas available for immediate consumption is "holding back" and is thereby "anti-social," but a consumer who reduces immediate consumption practices "conservation" which is "socially desirable." If a producer were restricting production anticipating higher future prices, would such conduct be antisocial? If producers do not follow market signals, they have no way to make production decisions including how much to produce or when to produce.

There are only two ways to allocate goods and resources—the market and central direction. The market permits people to choose on the basis of relative prices. Since each party gains under voluntary exchange, conflicts are minimized. When economic goods are rationed

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by nonmarket methods, conflicts are inevitable. Since more is desired than is available at the controlled price, measures must be taken to reduce consumption. Austerity measures with pleas to eliminate "waste" and reduce consumption to the "needs" level are endemic in nonmarket allocation procedures. Mandatory "conservation" measures mean that consumers are made poorer by being forced to do without.

Conclusions

How then ought choices be made in a world of "finite resources?" Conflicts will be minimized when the rules of the game are such that the market is mainly relied upon to ration goods and the individual citizen bases his decisions on his preferences and on relative prices. Admonitions to satisfy essential needs, forego waste, and live in austerity are unlikely to have the effect of feeding the hungry or sheltering the homeless throughout the world. Forced austerity works against people's willingness to work. If people are prohibited from buying the goods they desire, they will work less and take more of their real income in the form of leisure.

What does this mean about the level of living for us as individuals? The attitude that consumers should not be prohibited from acquiring the "luxury" goods they desire does not mean that we as individuals should follow a pattern of conspicuous consumption. The question of what goods and services each of us consumes, is a matter which must be answered by each of us as individuals. One person cannot identify "waste" in consumption by another individual except by imposing his own standard of values. There is little question that many of us could benefit from a more austere life style. Yet, moves to impose life styles upon us are at variance with the tenets of a free society. ⊕

IDEAS ON LIBERTY

The Ongoing Cost of Liberty

THE SEARCH for the maximization of human well-being is a continuing one. Like the search for food, it never ends. We eat today but we will hunger again tomorrow. The cost of liberty is an ongoing cost. It is never paid in full. We achieve some measure of liberty today but we must strive again tomorrow. Were a totally libertarian society to emerge today, we would have to strive for it again the next day.

ROBERT LEFEVRE, *Lefevre's Journal*, Summer, 1978

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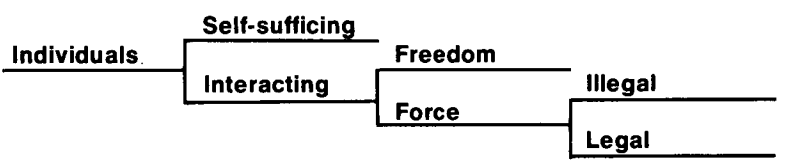
Dale Haywood

A HUMAN ACTION TAXONOMY

A TAXONOMY is a technique of classification. The zoologist, for example, uses the categories phylum, class, order, family, genus, and species to classify animals. This system of classification makes the zoologist's study more manageable, thus enabling him to "peg" correctly any given member in the entire animal kingdom.

The student of liberty may also find it useful to have a taxonomy, a taxonomy of human action. In his book, *The Law,* Frederic Bastiat provides just such a system for classifying human action. With knowledge of this taxonomy, the student of liberty can readily "peg" any human action and thus distinguish between actions that promote liberty from actions that erode liberty.

I have tried to extract the essence of *The Law* and put that essence in the form of a diagram—my human action taxonomy.



Reading the diagram from left to right, the starting point is the individual. All human action ultimately reduces to the actions of specific individuals. The individual is the most important element in society.

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The individual may choose to be self-sufficient or to interact with others. At least theoretically, an individual can go it alone in life. However, at this stage in history, it is practically impossible to be self-sufficient. Realistically, we find ourselves on the "Individuals—Interacting" branch of the diagram.

There are alternative ways of interacting. We may interact with others freely, voluntarily, peacefully. Individuals interacting with others voluntarily are motivated by the prospect of profit, by the prospect of gain for *all* parties to the transaction. Thus, it seems logical to try to *maximize* the number of voluntary human actions.

Alternatively, we may interact with others forcefully, under coercion or the threat of coercion. When an individual interacts with others under compulsion or the threat of compulsion, not all parties gain. The predator may gain; the individual preyed upon certainly loses. Thus, it seems logical to try to *minimize* the number of human actions rooted in force.

Note that "Force" has two branches in the diagram. The upper branch is "Illegal." From time immemorial, some types of human action have been generally condemned. Actions such as theft, rape, and murder are examples of illegal, forceful interactions of individuals. Since most people are alert to such actions and since there is widespread agreement that these actions are reprehensible, these constitute a relatively small percentage of all human action. It is doubtful that the greatest perils to civilizations come from this category of human action.

We come now to perhaps the most instructive part of the diagram, the "Legal" branch of "Force." Government subsidies are examples of legal, forceful interactions of individuals. It is obvious that subsidies are legal, being duly sanctioned by law. Although the force in subsidies may not be so obvious, it is there nonetheless.

Subsidies are financed with taxes such as federal personal income taxes. I pay income taxes partly in fear of forceful reprisals if I do not. Tens of thousands of other citizens of the United States reason and act the same way I do, I surmise. So it is from the threat of force that at least some of us pay income taxes, from which subsidies are paid. Thus, it seems to me, subsidies are an example of legal, forceful interactions of individuals.

There is a feature of legal, as opposed to illegal, forceful interactions of individuals that makes this category of human action a special

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threat to our welfare. Since the federal government of the United States was founded, in part, to "establish justice," I suspect we may be lulled into thinking that all of the federal government's activities are consistent with this objective, i.e., that all such activities are just. Thus, legal, forceful human actions may insinuate themselves into a society of inattentive, uncritical individuals. But the fact that actions rooted in force are implemented by a government designed to "establish justice" leaves such actions still rooted in force.

Recall that in transactions rooted in force, the predators may gain but those preyed upon certainly lose. Those preyed upon are necessarily the producers in society. Surely as predators prey upon producers, the producers will become less inclined to produce. True, if the producers have accumulated output from the past and if they are currently very productive, they may endure considerable predation with no *apparent* harm to society for a while. But if the amount of predatory human action keeps growing and growing, the producers will, sooner or later, become less inclined and then disinclined to produce no matter how well off they are at the outset. With predation waxing and production waning in a society, that society is surely doomed.

It is not inevitable that this destructive process continue. By increasing the proportion of their voluntary, mutually profitable transactions, any group of individuals can invigorate, or reinvigorate, their society. Equipped with this human action taxonomy, the proponent of liberty can readily "peg" any human action and thus decide which actions he will take or support, and which actions he will reject or oppose. I trust that others may find this human action taxonomy helpful in the cause of human liberty.

Mr. Haywood is associate professor of business and finance at Northwood Institute, Midland, Michigan.

This article is from a speech at Northwood's 1978 summer seminar on "Freedom in Third Century America."

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Ethics and Economics

ECONOMICS did not begin as the "dismal science." It began, in Adam Smith's *The Wealth of Nations,* as a grand essay on the consequences of human choice, sometimes statistically predictable, sometimes not, in a field that presumes a framework of law, culturally determined habits, and common notions of justice and morality.

Smith, whose first interests were ethics and jurisprudence, knew that an economist must use deductive logic as much as arithmetic and algebraic thinking if he is to make sense of his subject. It was for a very sensible reason that Ludwig von Mises, reverting to the Smith practice, put his own study of economics into the wider, and eminently Smithian, perspective of "human action," a subject of such vast scope that it brings everything from ethics to physiology, psychology and politics into the picture. The good economist must be a learned man, versed in general history as well as statistics, and with a wary eye for what judges, legislators and bureaucratic administrators do to hobble or direct the choices of millions of marginal bargainers they have never seen.

Smith, the learned Eighteenth-Century man par excellence, backed into his study of economics by way of ethics and jurisprudence, which were the general substance of many of his lectures and of his book on the theory of the moral sentiments. It was the "policeman's" duty, he observed, to provide cleanliness, safety and a cheap access to economic goods to the members of a society. (By "policeman" Smith meant the politician, or the statesman.) It was only as an afterthought, which came

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to him when he observed the workings of the mercantilist system of state intervention, that Smith decided the proper way for a policeman to provide for "plenty" or "opulence" was to get out of the way of the producer.

Natural Liberty

Force was necessary to the happiness of human beings when it came to providing for the safety of the realm, and for preventing plagues. Force was necessary to restrain human viciousness—hence the desirability of the common law and a court system. But force, in the marketplace, was an inhibiting thing. "Natural liberty" was the key to the "wealth of nations." The Eighteenth-Century mercantilists, who persisted in using the state to coerce traders, were anti-plenty—and therefore morally delinquent in their approach to the third duty of the policeman to see that people were as affluent and well-nourished as their industry and aptitudes could make them.

The ethical cast that Smith gave to his economics colors most of the bicentennial essays, assembled by Fred R. Glahe for his book, *Adam Smith and the Wealth of Nations* (Colorado Associated University Press, Boulder, Colorado 80309, 172 pp. 1978, $12.50). For one example, James M. Buchanan of Virginia Polytechnic Institute is preoccupied with "the justice of natural liberty." If a man's aptitude is for driving a truck or a taxicab, Buchanan asks, is it just to exclude him from competing for the trade of carrying goods or human beings from here to there? The answer must be that excluding men from markets is immoral. Natural liberty implies equal liberty, and if the "policeman"—i.e., the State—is arbitrary in prescribing licensing processes it must indeed be called unjust.

In his essay on "Smith Versus Hobbes," Joseph J. Spengler of Duke University observes that, in theory, justice may flourish under the ideal collectivist state or under a free economy "buttressed in a minor degree by collectivist supplementation when pronounced externalities are involved." But in reality, so Spengler avers, when the state mixes into economic matters those who control the government apparatus get the cream while the underlying population must be content with the thinnest of skim milk. This is palpably unjust. The market system is much more just in that it tends to promote a high degree of correspondence between individual performance and reward.

Two Views of Man

The difference between Smith's view of human nature and Hobbes' view is rooted in a theory of man. Hobbes thought the uncoerced human being would soon revert to

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the law of the jungle. He therefore supported the leviathan state as a restraining influence. But Smith, according to Thomas Sowell of the University of California in Los Angeles, another contributor to the Glahe book, thought that man, though a striver for self-interest, could be counted on to be held in check by public opinion, the law, and other representatives of morality. The Smith view leads to the limited state as the just state, with the "policeman" exercising his Hobbesian nature only in fighting crime and in defending the realm at its borders.

Another Glahe contributor, Professor William J. Baumol of Princeton and New York University, deals with "Smith Versus Marx on Business Morality and the Social Interest." Curiously, Smith had a much lower opinion of the morality of businessmen than Marx, who tended to see the capitalist as an individual beyond good and evil who served something called the "historic process." Smith trusted the market mechanism to keep the businessman from achieving the monopoly for which his greed might hunger. The "invisible hand," in providing for competition, dictated a moral outcome despite the natural propensity of some businessmen to conspire to limit the market and raise prices. Marx, who thought monopoly was inevitable, was not concerned with individual morals. His "invisible hand" worked through classes, and the end—the seizure of the monopolies by the proletariat—was decreed in the stars no matter how individual capitalists behaved.

The Morality of the Market

Leonard Billet of the University of California in Los Angeles endorses James Buchanan's ethical choice of subject by calling his contribution "Justice, Liberty and Economy." What particularly impressed Billet about Smith's *The Wealth of Nations* is its concern with the immorality of Britain's treatment of its North American colony, where the "rights of Englishmen" were ignored by the mercantilists of London working in cahoots with a stupid government. Smith's economic principles, says Billet, "are fundamentally moral principles. They are favorable neither to robbers nor to barons."

Ethics plays a less prominent part in the essays contributed to Glahe by Milton Friedman, Harry G. Johnson and Ronald Max Hartwell. Friedman writes eloquently about the relevance of Adam Smith to the modern day. Johnson is less impressed with Smith's value to moderns now that the "corporation in its internal activities is organized in a non-market, bureaucracy-like fashion, with decision-making by committee and consensus procedures."

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As for Ronald Max Hartwell, he is primarily interested in Smith's relation to the industrial revolution, which was hardly begun in 1776. Whether Smith foresaw the economic effects of the steam engine seems to Hartwell to be beside the point. Smith certainly knew that the England and Scotland of his time were in a take-off phase in growth.

Man of Letters and Economist

Adam Smith was not only a moralist, he was also a man of letters, an educator, and a clubbable man in a clubbable society. In a fascinating book, *Adam Smith: Man of Letters and Economist* (Exposition Press, Hicksville, New York 11801, 297 pp., $10.00), Clyde E. Dankert deals, among other things, with Smith as a literary stylist. He remarks in particular on Smith's fondness for triplicates, such as the "butcher, baker, and brewer" and the tendency of man to "truck, barter, and exchange." The triplicates not only achieved balance, they provided for nuances. Dankert also notes Smith's ability to combine indignation and elegance of diction, as when he spoke of "that insidious and crafty animal, vulgarly called a statesman or politician." Always the ethical man, Smith believed in "just indignation," which he sometimes tempered with humor and sometimes did not.

GOVERNMENT BY JUDICIARY: THE TRANSFORMATION OF THE FOURTEENTH AMENDMENT
by Raoul Berger
(Harvard University Press, 79 Garden Street, Cambridge, Mass. 02138)
483 pages ■ $15.00

Reviewed by L. Edward Robbins

RAOUL BERGER, renowned constitutional historian, charges that the United States Supreme Court—a presumed fount of constitutional wisdom—is itself acting unconstitutionally by sitting as a "continuing constitutional convention," revising the Constitution at will. Such action transforms our government from one of several coordinated branches, each equally capable of checking abuses by the others, to a government by the judiciary.

The consequences are ominous. Judges are no less fallible than other men, no less ambitious for power. Their unchecked authority is as antithetical to liberty as that of anyone.

Originally, judicial review was "divorced" from policy-making. It was merely a process through which the Court might void legislative or executive action deemed unconstitutional, and the Constitution's meaning was determined not by judicial whim or fancy but by looking to the intent of its framers.

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Judicial review has now become a *power* through which the Court participates actively in policy-making. The question posed by the Court on review is no longer whether a particular policy is constitutionally permissible, but whether such policy corresponds to judicial notions of societal "oughts." Such review infringes the democratic prerogatives of this nation.

Revisionists cry that the Constitution must be continually modified to meet the exigencies of governing a changing nation such as ours. Berger replies that liberty can be enjoyed only through a fixed Constitution which places specific limitations or "chains" on ambitious, self-interested individuals. Further, the Constitution provides expressly for its amendment as exigencies demand. Revisionist interpretations render these provisions a nullity. Thus recourse to amendment is both sufficient and mandatory.

Berger builds his case against revisionism through a detailed analysis of the Fourteenth Amendment. Drawing extensively on legislative history, he argues that the amendment was originally intended to compel the states to secure, through the privileges and immunities clause, only those rights traditionally understood as "fundamental" or "absolute," excluding such matters as legislative reapportionment and school desegregation. He then traces the imposition by the Court of these and other unintended measures through a misplaced emphasis on the equal protection clause.

Needless to say, Berger's work has not endeared him to many of his onetime liberal fans who relied heavily on his *Executive Privilege: A Constitutional Myth* (1974) and *Impeachment: The Constitutional Problems* (1973). They would have preferred that a more lenient standard be applied to the judiciary. But Berger's scholarly integrity precluded such duality. He has judged the executive and judiciary by the same standard—the framer's intent—and found them both wanting.

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THE FREEMAN—Volume 28, January-December 1978

Prepared by BETTINA BIEN GREAVES of the Foundation staff

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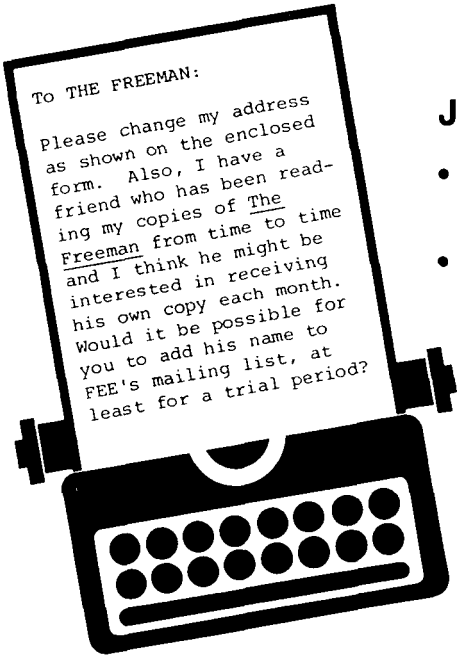
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